

**CO-OPERATIVE VICTORIA**

**MINISTERIAL ADVISORY COMMITTEE ON  
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# INTRODUCTION

1. The Victorian Government is currently examining the appropriate form of corporatisation for Government Business Enterprises - including the SECV, statutory marketing authorities and the Rural Water Commission. The basis of this submission is to argue that the current debate on corporatisation in Victoria is muddled - based on a misunderstanding about the nature of commercial enterprises and that co-operatives demonstrate the practicality of combining social and economic objectives within commercial enterprises.
2. Both the Government's discussion paper on Corporatisation and a preceding paper by the Public Bodies Review Committee argue that the objective of corporatisation is to improve competitiveness and efficiency through reorganising GBEs so that they emulate private sector behaviours.
3. Cooperatives are also business enterprises. The Ministerial Advisory Committee on Cooperation believes that cooperatives offer a middle way which avoids the social costs of corporatisation and, indeed, privatisation. The cooperative economic system is an alternative to the public and private economic systems. Co-operatives combine the social objectives of public enterprise with the economic objectives of private enterprise. The co-operative model provides the advantages of both the private (efficiency) and public (service) models while avoiding the disadvantages of the private (profit maximisation) and public (bureaucracy) models.
4. At the 30 June 1990 there were 1,293 registered cooperatives in Victoria - 409 in Victorian country and 68 in urban Geelong, Ballarat and Bendigo. There were 119 credit, 125 trading, 60 producer, 22 community settlement, 15 rental housing and 947 community advancement cooperatives. Based on returns lodged by cooperatives there were 869,604 members and assets totalled \$2,159,450,651. Co-operatives already have a critical role in the Victorian economy - 70% of Victoria's milk is produced by cooperatives, 85% of the State's fertilizers, 60% of the processing and marketing of dried fruit and 75% of the fishing industry. In 1990 there were 299 agricultural cooperatives throughout Australia - 15 artificial breeders, 34 dairying, 35 fishing, 72 fruit and vegetable, 38 grains (excluding cotton), 26 livestock, 64 miscellaneous and 15 sugar. According to Langdon, 207 of these cooperatives were generating sales of \$4.35 billion and had assets of \$2.8 billion.
5. The argument for the cooperative model is essentially an argument for economic democracy. It is the same philosophical argument that is made for political democracy. Political democracy is a given and the issue is how to improve its effectiveness and efficiency - not whether other systems of government are more effective and efficient. In brief, there are four advantages of cooperatives. First, cooperatives are a natural extension of the needs and business interests of their members e.g., water, electricity and marketing commodities. Second, cooperatives are structured to prevent takeovers and, therefore, ensure ongoing local farmer and rural resident ownership and control. Third, the cooperative model is sellable to farmers and other rural residents. Fourth, the cooperative model ensures that the assets are owned and controlled by the individuals and families who created these assets.
6. In the absence of a political commitment to economic democracy, however, it is inevitable that questions are asked about the effectiveness and efficiency of cooperatives compared with public and private enterprises. Financial models have a necessary and desirable focus on the

economic viability of enterprises e.g., actual and required equity levels, financial returns and pricing policies. There is a possibility, however, that financial models will be simplistic in their inclusion of direct and immediate short-term inputs and outputs and exclude indirect and long-term inputs and outputs. The value of financial models in assessing whether or not a service should be provided by a public, private or cooperative enterprise depends on what is included and excluded in the model's methodology.

7. There is revealing evidence from Canada on the cost of cooperative health care compared with private health care. While a study was initiated in 1981 and completed in 1983, the Government did not release it until 1989. Perhaps the study's findings offer a clue as to the delay in its release. The Saskatchewan Health Community Clinic Study compared the cost of health services provided by two cooperative clinics and private practitioners - based on the experience of 15,297 patients for each. The patients were matched in the same geographic area who had the same age, sex, marital status, family size, family type, social assistance status and Registered Indian (Treaty) status. The basis of the comparison was medical, hospital and pharmacy costs to determine whether health services provided by community clinics were more or less costly to government than those provided by private practitioners. The conclusion was that GP, specialist, hospital and drug costs were 13% and 17% less for the cooperative clinics than for private practitioner costs.

8. The experience of cooperative, public and private provider retail prices is also revealing and illustrates how long-term, rather than short-term, perspectives are necessary. In the U.S.A. 79% of rural electric cooperatives have higher rates than neighbouring public and private utilities. It would be simple to conclude from this, however, that electric cooperatives are more expensive. There are four important considerations which need to inform an accurate assessment - wholesale prices, construction and capital costs, consumer base and developmental orientation. Wholesale prices: A major source of retail price rises has been the rise in the cost of wholesale power. From the middle 1970s to the early 1980s wholesale electric prices averaged an annual increase of 30% which resulted in annual retail price increases of 15% or more. This has encouraged electric cooperatives to achieve energy independence - from 1970 to 1988 the electric cooperatives increased the generation and transmission of their own power from 26% to 44%. Construction and capital costs: The lower retail prices of public and private utilities reflect the lower construction and capital costs of plant built in the 1970s compared with the higher construction and capital costs of rural cooperative plants built in the 1980s. This competitive disadvantage of the 1980s will become a competitive advantage in the 1990s because most cooperatives have built modern and efficient plants with pollution control equipment whereas other utilities will have to replace plant and comply with Federal Government clean air legislation. Development: Cooperatives exist to serve their member consumers and rural electric cooperatives are committed to economic and rural development in their own areas. This has included satellite television, security, fire protection and health. Consumer base: There are significant differences between the consumers of rural cooperatives compared with consumers for the whole industry. In 1988 the customer base of rural cooperatives was 61% residents and farms and 34% commercial and industrial - compared with 62% commercial and industrial and 35% residential and farms for the industry as a whole.

9. The submission focusses on three types of cooperatives - marketing, electric and water. Cooperatisation is particularly relevant to rural Victoria for it would allow farmers and rural communities to own and control their economic institutions and preclude any future Government

decisions to continue downsizing public sector activity in rural Victoria. The paper is, however, based on an in principle discussion of the possible application of cooperatives. Eventual decisions to develop marketing, electric and water cooperatives would have to be based on separate detailed assessments.

## MARKETING CO-OPERATIVES

### INTRODUCTION

Marketing co-operatives should replace Statutory Marketing Authorities - where there is significant farmer support and capital for cooperatives. Specific consideration is given to the cooperatisation of Victoria's Grain Elevators Board because it is currently under review by the Victorian Government. Two basic forms of organisation have been established for the marketing of agricultural commodities - cooperatives and statutory marketing boards.

In Victoria, marketing cooperatives include the Abalone Fishermens Cooperative, the Lakes Entrance Fishermens Cooperative, the Victorian Producers Cooperative, Bonlac Foods and the Murray Goulburn Cooperative. The Abalone Fishermens Cooperative was established in 1968 and began processing and marketing fish in 1974. Ninety five per cent of its abalone is exported to Asia, The Lakes Entrance Fishermens Cooperative was established in 1964. Twenty one per cent of its fish is exported. The Victorian Producers Cooperative was established in 1910 to market primary products and supply farmers. The cooperatives services include wool, livestock, real estate, agricultural supplies, finance, travel and insurance. The cooperative has wool stores in Melbourne, Portland and Geelong. Bonlac Foods was established in 1986. Its original roots began with the Cobden Butter Factory Cooperative in 1888. It is Australia's largest exporter of packaged milk, butter and wholemeal powder. Murray Goulburn Cooperative was established in 1951 with its roots going back to cooperatives in the 19thC. Murray Goulburn processes approximately 20% of Australia's milk production - 40% of butter and butteroil, 40% of skim milk powder and 25% of cheddar cheese. Half of this production is exported - about \$250 million in 1989/90. Bulk grain handling agencies exist in Queensland, N.S.W., Victoria, S.A. and W.A. to receive, store and handle bulk wheat, barley, cereals, grain leguma and oilseeds destined for export and domestic use. In Queensland, S.A. and W.A. bulk grain handling is by cooperatives. In other States it is statutory authorities.

Statutory marketing authorities have existed in Australia since the 1920's - from 1922 in Queensland, 1927 in N.S.W., 1934 in Victoria and 1945 in Tasmania. A statutory marketing authority is a specific statutory arrangement which has been established to regulate the marketing of particular primary products or groups of primary products. According to the Industry Commission, Victoria has 14 statutory marketing authorities - the Australian Barley Board (also S.A.), Egg Industry Licensing Committee, Egg Marketing Board, Egg Pricing Review Panel, Grain Elevators Board, Melbourne Wholesale Fruit and Vegetable Market, Murray Valley Citrus Marketing Board (also N.S.W.), Tobacco Leaf Marketing Board, Western Metropolitan Marketing Trust, Wine Grape Industry Negotiating Committee, Tomato Industry Processing Industry Negotiating Committee, Victorian Broiler Industry Negotiating Committee, Victorian Dairy Industry Authority and the Victorian Dried Fruits Board.

In recent years, Commonwealth and State Governments have been encouraging Statutory Marketing Authorities to be commercially oriented and are reducing statutory-based

support. In 1989 the Commonwealth Government deregulated the domestic wheat market and this removed the monopoly previously exercised by bulk grain handling authorities. This has resulted in competition from other storage providers such as flour millers, feedlot operators, private storers and growers who store their own grain.

The Industry Commission has suggested that the greatest efficiency gains in statutory marketing can be made by the States. The Chairman of the Australian Wheat Board, Clinton Condon, has argued that "growers must stand ready to take control of their industry..."

### OVERSEAS PRECEDENCE

Manwaring has reported that in the U.S.A. in 1988 cooperative net sales of farm products marketed totalled U.S.\$49.1 billion - with milk and milk production, grains and oilseeds (excluding cottonseed), fruits and vegetables, livestock and cotton accounting for 86.1%. He reports the cooperative market share in the U.S.A. in 1988 as follows:

76%	milk
41%	cotton
30%	grain
24%	fruit and vegetables
7%	livestock

In the Netherlands, 93% of butter and cheese, 83% of fruit and vegetables and all potato processing are through co-operatives. In Canada in 1985 74% of grain was marketed through cooperatives. In Sweden it is 80% and in Finland 73%. Dairy marketing activity shares are 100% in Norway, 99% in Sweden, 97% in Finland and 87% in Denmark.

### CHANGING STATES

**Queensland** In Queensland Grainco Queensland Cooperative Association Ltd was established in August 1991 - formally assuming the powers of the Barley Marketing Board, Bulk Grains Queensland, the Central Queensland Grain Sorghum Marketing Board and the State Wheat Board from 1 January 1992. Grainco has over 5000 grower members. With the establishment of Grainco \$35 million was distributed through shares to graingrowers and a further \$35 million will be distributed based on the amount of business growers do with Grainco.

**N.S.W.** In N.S.W. the statutory Grain Handling Authority was corporatised in 1989 into a company, NSW Grain Corporation Holdings Ltd (GrainCorp), whose shares are held by the Premier and four other Ministers. GrainCorp has developed a Cooperative Warehousing Plan. Under this Plan groups of local growers can deliver wheat into local GrainCorp silos at harvest time and retain ownership of the grain until they are ready to sell it. In September 1991 GrainCorp was reporting that cooperative warehousing arrangements were being discussed involving more than 50 of GrainCorp's 200 country silo sites. In 1991 two silo co-operatives were formed - Shepherd's Producers Cooperative Limited (Wagga) and the Arajoel-Kywong Rural Cooperative Limited. Groups based at Parkes, Albury-Wodonga and Narrandera have also initiated discussions with the Registry of Cooperatives on formal

registration as co-operatives. In February 1991 the NSW Government initiated a process for the privatisation of GrainCorp and there have been negotiations on its sale. In N.S.W. in 1989 a review was established into four coarse grains and oilseeds marketing boards. In presenting its report in May 1990 it was recommended that if vesting powers were removed or severely constrained "then provision should be made for conversion of the organisations into companies or co-operatives if growers so choose." (p 34) Subsequently, the NSW Grains Board was established on 1 July 1991 - a statutory body rather than a co-operative.

Also in 1989 the NSW Egg Producers Cooperative Ltd (the Good Egg Company) was established to market eggs. The formation of the cooperative followed a decision of the NSW Government to deregulate the egg industry and wind-up the Egg Corporation which was originally established in 1926. The N.S.W. Government proclaimed the deregulation of the egg industry on 9 August 1989 - to take effect from 12 August 1989. The Egg Producers Division of the N.S.W. Farmers Association organised meetings of egg producers on the 8 and 9 August. Subsequently, a meeting on 24 August 1989 decided to form an egg producers marketing cooperative. .

**S.A. and W.A.** Deregulation of the egg industry in N.S.W. has broken previous agreements by State Governments to prevent the interstate trading of eggs. N.S.W. eggs can now be sold in Victoria and S.A. In S.A. the Egg Board is in the process of being disbanded and replaced by a producers cooperative. In February 1992 the SA Government introduced the Statutes Repeal (Egg Industry) Bill 1992 into the Parliament. The purpose of the Bill is to repeal the Egg Industry Stabilization Act 1973 and the Marketing of Eggs Act 1941. The S.A. Egg Board was originally established in 1941. Negotiations between the government and producers have been based on an understanding that an egg producers cooperative will be formed to take over the assets of the Board and be responsible for the existing grading, pulping and distribution facilities. It is expected that the Acts will be repealed in March 1992. Cooperative bulk grain cooperatives are already well established in Western Australia and South Australia. W.A.'s Cooperative Bulk Handling Limited was established in 1933 and South Australian Cooperative Bulk Handling Ltd was established in 1955. At the 31 October 1990 the W.A. co-operative had 9,790 shareholders and staff of 1,850 on season and 1,058 off season. Total consolidated revenue for the year ended 31 October 1990 was \$100,970,000 and consolidated assets were \$330,222,000.

**Victoria** In Victoria a Working Party was formed by the Minister for Transport, the Hon. P. Spyker, M.P., in 1991 to review the role and structure of the Grain Elevators Board. In 1932 the Victorian Government appointed a committee to review grain handling. The committee recommended a bulk grain handling system for the State based at Williamstown and Geelong. The Grain Elevators Act was passed in 1934 and the GEB established. Similar to NSW, the GEB is promoting cooperative warehousing for wheat growers - allowing growers to safely pool and store and subsequently sell their wheat in large parcels. The GEB Working Party is focussing its review on the future role of the GEB with the aim of giving it a commercial charter to compete freely with its competitors. The review is being undertaken in the context of the Victorian Government's commitment to corporatisation - as enunciated in **Corporatisation of Government Business Enterprises: A Policy Discussion Paper** (1991) prepared by a Government Commercial and Trading Enterprise Reform Committee.

## COOPERATIVE OPTION

The Government's focus should be on what is an appropriate ongoing structure for marketing boards and not predetermine this by adhering to a dogmatic corporatisation program. While the Government is committed to corporatisation generally, it should be willing to review on a case by case basis if an alternative model is more appropriate. The transformation of marketing boards into cooperatives is appropriate if growers support this option. The cooperatisation of marketing boards is not a form of privatisation. Cooperatisation would create democratic ownership and control by farmers - instead of speculative investors. Cooperatives are owned by a majority of members. In contrast, a privatised marketing company would be owned and controlled by a majority of shares.

Sale of a marketing board to a private interest could allow a competitor a position in the market at a very low cost. The formation of a cooperative, however, would allow farmers to own and control a business whose assets have been built-up from the authority's dealings with farmers. This is substantially different from private interests who have not contributed to the assets growth marketing boards.

A key consideration in the possible cooperatisation of marketing boards is the attitude of the Victorian Government to equity and a sale price. The Victorian Government may not be willing to recognise any claim farmers have to the equity of marketing boards because this would lessen the potential income from a continuing or sold board. If the sale option was adopted it would likely be to the highest bidder irrespective of the value of farmer ownership and control through a cooperative.

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## GRAIN ELEVATORS BOARD CHRONOLOGY

1934 Establishment of GEB

1935 First meeting of Board.

1939 Geelong Export Terminal opened.

1942 Ninety-four country elevators opened.

1963 GEB authorised to handle barley in bulk

1977 GEB becomes sole handling authority for all grains and oilseeds.

1978 Regionalisation

1987 Royal Commission into Grain Storage, Handling and Transport

1989 Deregulation of domestic wheat market at federal and state level.

1991 Working Party established to review GEB and  
Victorian Government corporatisation  
commitment

## ELECTRIC CO-OPERATIVES

This paper will argue for a decentralized model of the electricity industry based on a mix of public, private and cooperative enterprises. The corporatization proponents of centralized models have yet to demonstrate how this model is based on democratic principles and practices and effectiveness and efficiency. This public sector model has already been criticized by the proponents of privatisation which has involved a decentralized model of private ownership and control. Private ownership and control, however, is not democratic. This paper proposes a model for the electricity industry that is decentralized and democratic.

### ELECTRIC HISTORY

A centralized monopoly was not always characteristic of electricity supply in Victoria. Electricity supply in Australia is dominated by the public sector. In Victoria the primary provider is the State Electricity Commission of Victoria and there are also 11 local government retailers of electricity. The bulk of the generation, transmission and distribution of electricity is handled by the S.E.C. - a statutory authority responsible to a Minister and reporting to Parliament. The Victorian Government's proposed corporatization of public utilities will maintain the monopoly position and centralization of electricity through the SECV.

Electricity provision was originally established as a local enterprise with 149 utilities throughout Victoria. Electric utilities were established by municipalities, private companies and cooperatives. In 1913, for instance, the franchise for electricity supply in Boort was given to the Boort Co-operative Butter and Inc, Co. Supply was inaugurated in 1914. In 1953 there were 245 consumers connected to the cooperative. In 1915 the Heyfield and District Co-operative Butter Factory and Electric Lighting Co Ltd established an electric utility. There were 100 consumers when the SECV acquired the undertaking in 1924.

The involvement of butter factory cooperatives is not surprising given that in 1914 there were reportedly nearly 100 cooperative butter factories manufacturing 70% of the total butter produced in Victoria. In 1918 Heaton was arguing: "the outstanding example of agricultural cooperation is found in the dairying industry in connection with which butter and cheese factories have been established and cooperative milk distributing agencies have been set up, while the sale of the products is controlled by cooperative societies in the local market and overseas." ( p 581) The prime purpose of the cooperative butter factories, however, was farmer owned and controlled butter production and their cooperative character was not consumer ownership and control of electric generation, transmission and distribution. This was a factor in why an electric cooperative movement did not emerge to challenge private and public electric supply - particularly the creeping centralization of the SECV.

The SECV was established in 1918 with the goal of developing a State-wide system of electricity supply - including the gradual acquisition of private and municipal utilities. Even in 1956 there were 15 independent electricity undertakings in rural Victoria generating and distributing their own local supply - in addition to 11 municipal utilities retailing electricity.

Since 1918 the SECV has sought a centralized and unified electric industry. In 1947, for instance, the SECV criticised the suggestion of the Report of the Royal Commission Inquiry Into Electricity Supply (1947) for suggesting "that in certain sparsely populated regions electricity supply authorities external to the SECV should be established." The SECV argued that this proposal was "not in accord with those basic principles which with Parliament's approval have governed the country development work of the Commission." In 1951 the SECV emphasised that the final stage of the State's policy of unification of Victorian electricity supply involved the transfer to State ownership of the municipal undertakings. In 1992 the SECV is still arguing: "We believe Victoria would be best served if the SECV retained the present vertical integration of its three main areas of mining and generation, power grid and distribution and retailing."

## OVERSEAS MODELS

Before examining the various proposals for restructuring the electricity industry, it would be useful to consider what models exist in other countries. Precedents exist for the decentralized model in Germany, the U.K, New Zealand and the U.S.A. In the United Kingdom the privatised electricity industry has been separated into four components - generation, transmission, distribution and supply. There are two privatised generators - National Power PLC and Power Gen. Transmission is based on 12 Regional Electricity Companies which own the National Grid Company. These regional companies are also responsible for the distribution of electricity. The electricity industry in the U.S.A. is more decentralized than the U.K. with public, private and cooperative providers. The dominant type of electricity provider is the private company (typically called the investor owned utility) which is vertically integrated from the production to the distribution of electricity. *Leban* has noted: *The dominant role of investor owned utilities is obvious when looking at the following figures: 100 of them (out of about 200) own nearly three-fourths of the generation and transmission capacity (over 22KV) of the country; provide over 75% of generation, and supply three-quarters of final customers. The rest is furnished by some 3000 publicly-firms (of Federal, State or municipal origin) or cooperatives.* (Leban, Raymond Building a European Electricity Market: Some Lessons from recent US and European experience, Utilities Policy, April 1991, p 243).

In 1935 10.9% of 6,812,350 farms in the U.S.A. were electrified. Electric co-operatives were pioneered between 1914 and 1930 with 46 cooperatives serving between 10 to 360 members. The 1933 Tennessee Valley Authority Act authorized the TVA Board to construct transmission lines to serve "farms and small villages" and to give preference in the sale of surplus power to "cooperative organisations of citizens or farmers" as well as certain public agencies. In 1934 the first electric cooperative in the TVA area was established. In 1936 the **Rural Electrification Act** provided the legislative basis for the establishment and development of rural electric cooperatives. The primary basis for the legislation was to facilitate the electrification of rural areas. Existing private utilities, however, did not respond and electrification depended on farmers forming their own electricity co-operatives. The first co-operative was established in 1936. By 1992 there were 1000 rural electric cooperatives employing 60,000 full-time workers and serving about 12 million customers and 25 million people - homes, schools, churches, irrigation systems, retirement villages and commercial

enterprises in rural areas. For every mile of line:

- 5 people are served by co-operatives
- 32 people are served by investor owned (private) utilities
- 41 people are served by public/municipal utilities

A typical electric cooperative is 40 years old, has 2000 miles of line, has an investment in plant of approximately \$18 million, its annual revenue is approximately \$9 million, it employs 35 workers and has 8,000 consumer members and users. The cooperatives own and maintain more than half the electric distribution lines (more than two million miles) in the U.S.A. The cooperative's distribute about 7% of the nation's electricity and serves about 10.5% of the population. Rural electric generation and transmission systems produce about 44% of the electricity distributed by electric cooperatives - 23% from private utilities and 33% from public utilities. There are 62 Generation and Transmission Systems. At the end of 1989 G & Ts had utility plant in service valued at more than \$32 billion. In 1989 the G & Ts had operating revenues of \$9.4 billion. The generating capacity of rural electric systems is based on 75% coal, 10% nuclear, 8% gas, 6% oil and 1% other.

All consumers served by an electric cooperative are members based on the cooperative principle and practice of one vote per member. Members of the co-operatives pay a membership fee of between \$5 to \$10. Net margins, after reasonable reserves are set aside, go back to the members in the form of a cash patronage refund. The cooperatives set up credit accounts which show the share of the year's net margins belonging to each member. There is no shareholding in the co-operatives. The co-operatives see themselves 'as a service organization' which "holds a key place in the area where it provides electricity." Generally, "rural electric co-operatives are willing to help their communities whenever there is a need for the human and physical resources of a member-owned utility that the community has no established way for meeting." In 1984, about 23% of the cooperatives were involved in economic development. By 1990, this had increased to 74% and a further 14% reported that they were about to launch programs. Since 1961 REA borrowers have helped start and expand more than 25,500 new commercial, industrial and community facility projects - producing nearly a million new jobs.

**The National Rural Electric Cooperative Association** was formed in 1942. The Association represents the interests of the cooperatives, provides training and technical assistance, publishes the **Rural Electrification Magazine** and the **Rural Electric Newsletter**. The Association has 500 employees. NRECA has formed subsidiaries that provide group insurance programs, audit and inspection, pole production companies for quality control, manage overseas development contracts and provide marketing services. NRECA's annual meeting often attracts more than 11,000 electric co-operators. The association also holds 10 regional meetings each winter and there are 12 national standing committees each with 10 members elected by each region. The NRECA has established the National Rural Telecommunications Cooperative and the National Rural Health Network. The National Rural Telecommunications Cooperative (NRTC) was established in 1986 to provide a cable signal package to rural satellite dish users, educational programming to rural schools and a business network for rural electric cooperatives.

The primary source of capital for the cooperatives is internally generated - 42% internal,

39% REA borrowing and 19% non-REA borrowing. By the end of fiscal year 1989, the REA had approved a total of \$21.5 billion in direct and insured loans. As of 31 December 1989 rural electric systems had made more than \$13 billion in loan payments. As of 30 September 1989 \$24 billion had been repaid on FFB loans guaranteed by the REA.

**A National Rural Utilities Cooperative Financing Corporation (CFC) was incorporated in 1969 to act as a conduit between the rural electric cooperatives and the private capital markets.** The Corporation is organized as a co-operative with a 22 member board elected from 11 districts across the U.S.A. The CFC has approximately 200 employees. Total credit outstanding and committed was \$11.9 billion - \$4.9 billion gross loans, \$2.9 billion in guarantees and \$4.1 billion in unadvanced loans. From 1986 to 1991 total assets grew from \$3.174 billion to \$5.140 billion. CFC has \$2.4 billion in lines of credit from 52 U.S.A. and foreign banks. Electric cooperatives pay a membership fee of \$1000 and cooperatives that service rural utilities pay \$200. Members also agree to provide equity capital through investment in Capital Term Certificates. The CFC's rules provide for a portion of annual net margins to be set aside for cooperative education. In 1986 the CFC established a fund to help protect electric cooperatives threatened by a hostile takeover. During fiscal year 1990-91 CFC formed a small business investment company, Rural America Fund Inc. CFC provided RAF \$1 million in initial seed capital.

In New Zealand the distribution and retailing of electricity is undertaken by 61 Electricity Supply Authorities - either Electric Power Boards or Municipal Electricity Departments. The Southland Electric Power Supply authority, for example, is the largest rural Authority in New Zealand and has identified four remote rural lines, each of between 10 and 20 consumers, that are not expected to be commercially viable and it has been suggested that consumer cooperatives could be established. In interview on 4 February, 1992, the General Manager, Jim Gear, said that the cooperative option was considered because in "some cases it might be cheaper." He stressed, however, that the idea had not progressed and that no proposal had been made to consumers. The New Zealand Government has decided that all the authorities will become companies with directors initially appointed by the Government but subsequently elected by shareholders. The Government is also providing for polls of "consumers and ratepayers which will allow a democratic determination of the ultimate ownership structure of the new companies. The results will be binding. The Government has said :"consumers must be allowed to have a say in the future of their electricity supply authorities."

## RESTRUCTURING PROPOSALS

Given this overseas experience, what are the proposals for the electricity industry in Victoria? The least promising is that of the authors of **Powering The Future: The Electricity Industry and Australia's Energy Future** (1991) The authors argue for the importance of "long term benefits to the institutions, their workforces and the community" and for "Industry trade unions, governments, industry management, the community and environmentalists" who "would be represented at the national and State level ..." (p Xiii). But, this democratization is based on centralization - not only continued statewide public sector

utilities but also a National Electricity Industry Committee which would` replace the industry's existing peak body - the Electricity Supply Association of Australia (p xiii).

Subsequently, in the **One Nation** statement on 26 Fenbryary 1992 Prime Minister Keating promoted this centralization - prioposing the establishment of a National Grid Corporation to operate a National Grid separate from existing generation and transmission interests. The Prime Minister` also foreshadowed, however, guaranteed access for private and public owned generators to the grid .

A more significant proposal for the cooperative movement is the argument in **A Restructuring Strategy for Electricity In Victoria** (1991) where Project Victoria has proposed the decentralization of the electricity industry based on a plan to re-organise all of Victoria's power generation facilities, a design for a national power grid, a proposal for a genuinely competitive 'power pool' run by an independent statutory authority and a competitive structure for power distribution. (p 1)

Project Victoria argues that in almost all international models they have reviewed that " *there is significant evidence of competition in the generation and distribution sectors...*" (p 1) Project Victoria argues for the separation of generation, transmission and distribution functions with generation and distribution competitive and private. There is no stated preference for transmission ownership. (p 19) It is suggested that three` electricity distribution franchises should be established for Victoria - Western Electric, Northern Electric and Eastern Electric. ( p 30) It is suggested that "*multiple distributors in a single` service territory may be inappropriate.*" ( p 27)

Project Victoria's franchise proposals are limited and limiting and that the number of electricity distribution outlets available should also be influenced by the willingness and capacity of community's to own and control their own electricity co-operatives. This would be particularly relevant for rural Victoria with the experience of the rural electricity co-operatives in the U.S.A. While Project Victoria acknowledges the role of electricity cooperatives in the U.S.A. in generation and distribution, their emphasis on the restructuring possibilities for Victoria is on the possibilities for private enterprise.

**In Energy Generation and Distribution** (1991) the Industry Commission has also advocated the decentralization of the electricity industry. The Commission has advocated "the need to separate transmission from generation and distribution and the desirability of promoting competition." ( p 125) The Commission has suggested that electricity distribution in Victoria is fragmented with 11 municipal electricity undertaking handling 20% of the State's electricity sales.

A discussion paper prepared for the Public Bodies Review Committee, **SECV Past, Present and Future In a Corporatised Competitive Electricity Industry** (1991) has proposed various organisational structures for the electricity industry - including a power grid company, three coal mining companies, six generating companies and 10 to 20 customer service companies.

In summary, the reform agenda is based onthe separation of transmission, generation and

distribution - with either a decentralized privately owned and controlled electricity industry or a corporatised centralized utilities which imitates the private sector. Neither model is based on the democratic ownership and control of the electricity industry.

## COOPERATIVE ELECTRICITY

For cooperatives there are economies of small scale to be realized under conditions of decentralization. The effectiveness and efficiency of a business as a cooperative depends on the active participation of its members and if a cooperative grows to a certain size, then, diseconomies are generated. The conversion of the existing SECV into a cooperative, for instance, would be difficult to sustain because of its size. The greater the decentralization of the electricity industry, the greater is the capacity to develop electricity co-operatives.

Cooperatives are the organisational expression of ecologically sustainable development. This point is missed, however, by the proponents of ecologically sustainable development who limit their definition and understanding to exclude ecologically sustainable organisation. In 1990, for example, the Commonwealth Government established what it described as Ecologically Sustainable Development Working Groups on transport, agriculture, forestry, fishing, mining, energy production and use, manufacturing and tourism: ... *the task for each Working Group was to identify the most important problem areas, set some priorities for achieving the changes desired, develop solutions that meet both environmental and economic goals, and propose time-framers for change that take account of the Government's social justice policies and Australia's place in the world.*" (**Ecologically Sustainable Development Working Groups: Final Report - Energy Use**, AGPS Canberra, 1991, p xv).

A collective failure of the working groups, however, has been their unwillingness and incapacity to acknowledge that ecologically sustainable development may critically depend on ecologically sustainable organisations. The **Final Report - Energy Production** (1991), for instance, discusses the energy sector as part of a global industry. Identified barriers to ecologically sustainable development include economic efficiency, technical efficiency, administrative and managerial efficiency. ( pp 83-86). Organisational effectiveness and efficiency is not identified as a barrier. But, then, the sustainable development challenge for Australia is commonly defined as restoring balance in external payments through (a) stabilizing and reducing debt and (b) producing and marketing high value products and reverse the deterioration of the national and global environment through ecological health. The emphasis is on the integration of economy and ecology. The emphasis could be on the integration of organisation, economy and ecology. Zarsky has argued that sustainable development is about desired change based on social goals whereas growth is simply about an increase in real income per capita. This differentiation, however, should be extended to incorporate the structure and process of development - sustainable organisation as the basis for the integration of economy and ecology. Social organisations (i.e., cooperatives) are a prerequisite to the achievement of social goals. This is not an argument for precluding the involvement of public or private sector organisations in the electricity industry. Rather, the cooperative, private and public sector mix in a restructured electricity industry is dependent on scale, activity, resources, processes and efficiency.

At least the New Zealand debate on electricity restructuring from 1989 to today has included

consideration of consumer cooperative ownership options. On 13 October 1989 an Electricity Task Force, for example, informed the Cabinet Policy Committee that privatised ownership was "only just favoured over consumer cooperatives and local ownership." New Zealand's Electricity Distribution Reform Unit has also conceded that cooperative ownership was not incompatible with productive efficiency - defined as clarity of purpose, non-intervention, effective monitoring and accountability. The report noted: *It is important to note that if these conditions are met productive efficiency will occur irrespective of ownership type. There are many examples of efficient and inefficient companies within any ownership type.*" (p 13)

The U.S.A. experience is that rural electric co-operatives are efficient - and socially responsible. In 55 years the Rural Electrification Commission has foreclosed on two non-operational borrowers - a private company in North Carolina and a cooperative, the Genesee Valley Electric Cooperative, in Belmont, New York. The cooperative failed to become operational after private utilities moved into the area it had been organized to service. In addition, there have been 14 cooperatives under supervision. In 1990 seven of these were still being supervised.

## CONCLUSION

The Government's proposals for the corporatisation of the SECV are based on an illusion that the public interest is served by an SECV that is required to imitate private enterprise. In contrast, a cooperative model would provide the benefits , and avoid the costs, of public and private ownership and control - combining business efficiency with social purpose. In the past, defined market failure in Australia has invariably led to a public sector based response. In 1945 the Rural Reconstruction Commission discussed the electrification of rural Australia. The Commission reported that in Victoria, for example, 86% of 151 wheat farms and 77% of 273 dairy farms had no electric light. In recommending that States extend rural electrification, the Commission noted that inquiries had been made about the position in the U.S.A. but no reference is made to the rural electric cooperatives. The success of the SECV in creating a Statewide electricity generation, transmission and distribution system could now provide the opportunity for cooperatives to be developed.

It could be objected that the decentralization of the electricity industry will result in increased prices for consumers. But, even with a continuing centralized SECV, the Government is committed to the eventual phasing-out of cross subsidies and uniform tariffs i.e., increased prices for domestic and rural consumers. The pricing savings that presently exist for rural consumers in particular from a centralized public SECV over hypothetical regional electric cooperatives may not exist, therefore, in the future. Subject to competitive forces and service territories, electric cooperatives could even deliver cheaper prices than under conditions of privatisation. This will be subject to the capacity to achieve increased efficiency and wholesale electricity prices. Irrespective of pricing outcomes, cooperatives would have two compelling advantages over private and public utilities - direct consumer ownership and control and an active regional community development practice.

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**BASIC FACTS: RURAL ELECTRIC CO-OPERATIVES  
IN U.S.A.**

1000 co-operatives

12 million customers and  
25 million people

44% self-generated power

2% annual customer growth rate

60,000 full-time workers

One million jobs generated since 1961

\$565 million in state and local taxes (1989)

\$21.5 billion in direct and insured loans approved  
by REA by end fiscal year 1989

\$24 billion repaid on FFB loans guaranteed by REA  
by 30 September 1989 - \$17 billion in interest  
and \$7 billion in principle.

42% self-generated finance

## WATER CO-OPERATIVES

1. The Government has released a review on the future management of Victoria's rural water supplies which has recommended a restructuring of the Rural Water Commission. The review has recommended:

six regions with new boundaries and structures and increased autonomy  
anew, small central authority  
two new, semi-independent Service Companies  
Customer Groups.

Regional and sub-regional cooperatives are possible under the proposed restructuring.

2. Under the proposal, there will be regional responsibility for management of the rural water system - instead of centralised management. It is proposed that six regional boards be established: Murray-Goulburn, Wimmera/Mallee, Coliban, Sunraysia, Southern and Gippsland. Each region would be responsible for running its own business and managed by boards who would determine prices, costs and servicing levels. The option is for boards to choose to assume strategic and commercial autonomy. Autonomy, however, would depend on discussions with the central authority and approval by the Minister.

3 The Report notes that there are "already a number of small groups of irrigators - typically diverters - who collaborate to deliver water to their respective properties using a shared delivery system." (p 71) It is proposed that this "model of the Customer Groups should be encouraged." ( p 72) It is noted that "A key characteristic of these Customer Groups would be common locality, common needs and a shared segment of the distribution network." ( p 72)

4. It is further recommended that over time "the Customer Groups should be encouraged to take increased responsibility, up to and including the full operation and maintenance of their part of the system. These increases in responsibility would also be negotiated and performance contracts drawn up by the Customer Group and the regional management. If a Customer Group did move to full operation of its part of the system, employing their own operating staff and carrying out their own maintenance, then both financial and technical audits of their operations would be carried out by the Region to ensure that the State's assets were properly maintained and that long-term operating viability was established." ( p 72. Regional General Managers will have a specific responsibility of "encouraging the establishment of Customer Groups." ( p 84) It is possible that the existing system of advisory committees was the envisaged basis for the emergence of Customer Groups. There are currently 63 advisory groups.

5. The report offers no comments on the structure of the Customer Groups. Yet, the preceding Options Paper did propose an option which involved: All distribution would be handled by a number of fully independent and privately owned regional irrigation companies. Some shares in these private companies would initially be offered on a preference basis to irrigators within the particular region but this would not preclude a significant holding by appropriate companies nor would it preclude shareholders selling their shares - though some restrictions might be

imposed to protect significant localised interests." (p 32) It is argued that "the vesting of true ownership of regional distribution channels and the associated independence of decision making, flexibility, market responsiveness and cost controls associated with the profit motive would introduce a totally new dynamic to the retailing and management of irrigation deliveries and other water resources." (p 32) A further option not set out in the discussion paper or the final report would be fully independent and co-operatively owned regional irrigation cooperatives. The local member ownership of these cooperatives is the only guarantee that would protect significant localised interests. Cooperatives share with private companies the profit motive and the associated independence of decision-making, flexibility, market responsiveness and cost controls. Similarly, in its submission to the review the Rural Water Commission identified a full range of management options as including the existing system of advisory committees, contracts to operate and maintain infrastructure, a public business enterprise and a private company - excluding a cooperative option.

6. There are, then, two broad cooperatisation options which are not mutually exclusive. First, the establishment of regional cooperatives. Second, the establishment of sub-regional cooperatives. Of course, consumers within regions may prefer to opt for companies rather than cooperatives. A dynamic and democratic decentralization model of rural water distribution would provide for consumer choice in the structure of their respective water utilities.

7. Both the Regional Boards and Customer Groups Quite obviously proposed in the Final Report could be structured as cooperatives - provided consumers supported the development of water cooperatives. The arguments for water cooperatives could be summarised as follows:

Water supply consumers have a vested interest in the continued supply of safe and reliable water. A cooperative owned and controlled by consumers, therefore, would be a natural extension of this interest.

Water supply cooperatives would be locally owned and controlled by local consumers. A cooperative would guarantee ongoing local ownership. In contrast, a private company could be owned and controlled by shareholders external to the serviced areas whose primary focus is profitability rather than the water supply needs of consumers. If appropriately structured, a water cooperative could not be taken over by a private company.

Consumers have a claim on the assets of the Rural Water Commission through consumer owned and controlled cooperatives. The assets of the Rural Water Commission have been created by consumers directly through taxes and indirectly through Governments entrusted by citizens to control the Rural Water Commission on their behalf. Governments which claim they own public assets have a mistaken view of for whom public assets are generated.

## VICTORIAN WATER CO-OPERATIVES

### PEECHELBA WATER SUPPLY CO-OPERATIVE LIMITED:

Objectives include to finance the supply of a pumping unit, the construction of a pipeline and storage tank to supply water to houses and land in the Peechelba district. As at 22 July 1990 the co-operative had 44 members holding 57,000 shares with a paid-up capital of \$55,047.09. Receipts during the year \$12,946.23 and total payments \$5,603.69.

### PORTER'S ROAD WATER STORAGE CO-OPERATIVE LIMITED :

Objectives include to operate and maintain a continuing supply of water for stock and domestic purpose to lots 1-7 and lots 9-18 inclusive on Plan of Subdivision No.115622 Parish of Benalla. As at 31 May 1989 the co-operative had 17 members holding 85 shares and a paid-up capital of \$85. Receipts during the year \$2,639.56 and total payments \$2,541.87.

### RIVERVIEW WATER STORAGE CO-OPERATIVE LIMITED:

Objectives include to administer the operation of water supply for its members. As at 31 March 1990 there were 20 members holding 100 shares and a paid up capital of \$100. Receipts during the year \$5,906.97 and total payments \$7,601.88.

### ROCKBANK NORTH WATER SUPPLY CO-OPERATIVE LTD.:

Objectives include to finance the construction and maintenance of pipelines, pumps and water storage tanks to supply water to properties located in the Rockbank North district. As at 20 July 1989 there were 54 members holding 83,700 shares with a paid-up capital of \$8,370. Receipts during the year \$24,218 and total payments \$27,966.

### WAKITI IRRIGATORS CO-OPERATIVES SOCIETY LTD:

Objectives include to establish, maintain and control a permanent irrigation system on the Wakiti Lagoon and to provide works for the pumping of water from the Goulburn River into the lagoon to meet the requirements of the members for the irrigation of their lands and to purchase or otherwise acquire agricultural machinery implements and requisites on behalf of its members. As of 26 September 1991 there were 23 members holding 8844 shares with a paid-up capital of \$17,688. Receipts during the year \$8144.56 and total payments \$6,531.29.

HOURIGAN SUB-DIVISION  
WATER SUPPLY CO-OPERATIVE  
LIMITED

Objectives include maintaining a pumping unit, pipeline and storage tank for the purpose of supplying water to houses and land in the Milawa district.

As of 23 July 1991 there were 14 members holding 70 shares with a paid-up capital of \$70. Receipts during the year \$3,571 and total payments \$3,199.

M W IRRIGATION  
CO-OPERATION  
LIMITED

Objectives include supply of water through the pumping of water to the storage lake from Murray River for the use of members. As of 31 March there were 42 members holding 98,531 shares with a paid-up capital of \$66,016. Receipts during the year were \$66,606 with total payments \$69,897.47.

CARLYLE IRRIGATORS  
CO-OPERATIVE SOCIETY  
LIMITED

Objectives include to hold an irrigation licence and provide pumping facilities for irrigation to members farming land. At the 30 June 1990 there were six members holding 7,480 shares with a paid-up capital of \$14,960. Receipts during the year were \$15,201 and payments \$16,461.

CROWLANDS WATER SUPPLY  
CO-OPERATIVE LIMITED

Objectives include to finance the construction and maintenance of a pipeline, pump and water storage tank to supply water to properties located in the Crowlands district. At the 31 March 1991 there were 27 members holding 135 shares with a paid up capital of \$13.50. Receipts during the year were \$3,172.18 and payments \$3,295.39.

KARDOOC CO OPERATIVE  
LIMITED

Objectives include to provide and carry out any community service including transport and the supply of water and electricity to provide and install plant, fittings required in connection with any community service. At the 31 March 1990 there were 7 members holding 1,800 shares with a paid-up capital of 1300. Receipts were \$9,073 and payments \$8,885.

KILLINGWORTH WATER  
CO-OPERATIVE LIMITED

Objectives include to finance the construction, installation and maintenance of a pipeline and equipment to supply water to properties located in Killingworth Road and Eary Road, Yea. As at 30 June 1991 there were 7 members holding 7 shares with a paid-up capital of \$70, there were payments of \$1244 during the year.

LAURISTON AVENUE  
WATER SUPPLY  
CO-OPERATIVE LIMITED

Objectives include to finance the maintenance of a pipeline and pump to supply water to properties located in Lauriston Avenue, Milawa. At 30 June 1991 there were 18 members holding 110 shares with a paid-up capital of \$110. Receipts during the year were \$4005 and payment \$3557.

P.B.E. WATER SUPPLY  
CO-OPERATIVE LIMITED

Objectives include to finance the maintenance of a pipeline and pumping equipment to supply water to properties located in Peninsula Bay Estate, Flinders. At the 30 June 1990 there were 14 members holding 75 shares with a paid up capital of \$75. Receipts during the year were \$1817.40 and payments \$2235.67.

# CONCLUSION

1. The purpose of this submission is to argue FOR THE DEVELOPMENT OF ELECTRICITY, WATER AND MARKETING COOPERATIVES - INSTEAD OF THE CORPORATISATION OF GBES.
2. The Government's proposals for the corporatisation of public utilities are confused and could introduce a dynamic that will result in their eventual privatisation. It is not inevitable, as the Discussion Paper argues, that "increased efficiency and effectiveness are unlikely to make GBEs targets for takeover or privatisation." ( p 11) Privatisation could logically follow corporatisation because the model being advocated by the Government is that the public utilities will imitate the characteristics of private enterprise AND, THEREFORE, PRIVATE OWNERSHIP IS A LOGICAL DEVELOPMENT FROM PRIVATE CONTROL. FURTHERMORE, THERE IS A CONTRARY VIEW THAT INCREASED EFFECTIVENESS AND EFFICIENCY RESULTS IN INCREASED PROFITABILITY AND, THEREFORE, SALEABILITY.
3. A key misunderstanding is informing the discussion paper ie., a business enterprise must focus on the achievement of exclusive commercial goals and that social goals are a distraction to its' purpose. While this assumption is largely accurate with respect of privately owned and controlled business enterprises, it is not accurate when applied to cooperatives. Cooperatives are business enterprises whose purpose is the achievement of social goals through commercial success whether it markets agricultural products, supplies water, provides health services or distributes electricity.
4. The discussion paper, for instance, argues that: Typically , GBE corporate objectives have tended not to separate commercial and non-commercial functions, leading to uncertainty in how performance should be assessed. ( p 11) It is noted that corporatisation requires "the separation of commercial functions from non-commercial functions" ( p 12). It is further noted: Current Victorian practice is for GBEs to have a broad range of objectives which may include commercial viability, universal provision of services, or meeting specific objectives such as environmental goals. In general, the objectives are fairly loosely defined, and, at times, may be incompatible." ( p 18) it is conclusively stated:"that the prime objective of a corporatised GBE is the provision of goods and/or services on a commercial basis." ( p 18) In believing that a business enterprise cannot have social goals as a prime objective, the Government has become a captive of private enterprise philosophy.
5. The social objectives of cooperatives do not compromise their commercial objectives and practices. The pursuit of social objectives is the rationale for cooperatives and commercial objectives are the means for achieving these objectives. Cooperatives deny that there is a conflict between commercial and non-commercial objectives. Successful cooperatives do not jeopardise their commercial viability but rather ensure that their commercial objectives and activities have a social purpose.
6. In its discussion paper on corporatisation, the Public Bodies' Review Committee has asked whether or not the government should retain 100% ownership of corporatised GBEs - apparently assuming that partial privatisation is not privatisation. ( p 47) The PBRC also discusses employee ownership - with an anticipated restriction on the proportion of the total available shares to employees. ( p 48). The discussion of "alternative ownership" ( p 49),

however, does not include consideration of cooperative ownership.

7. The Public Bodies Review Committee has also suggested that "The question of rights is important to the consideration of corporatisation of a government enterprise." (p 27) Consumer rights are identified as important but do not include the possibility of consumers owning and controlling their own business enterprises. In its paper, the Committee notes that "the matter of privatisation of GBEs as against community ownership is mostly ideologically driven, with powerful arguments on both sides but in our opinion out of the scope of the Committee's reference" and that "Ownership may be important in cases where the GBE concerned is a monopoly, and community ownership is seen as a way to prevent the GBE from abusing its market power." ( p 5) Of course, the exclusion of cooperatives from this argument is also ideologically driven and there are equally powerful arguments for cooperative ownership and control. Furthermore, community ownership does not necessarily prevent abuse of market power. Finally, cooperative ownership is a form of community ownership. Public ownership is not the only form of community ownership.

8. The corporatisation debate has two fundamental characteristics. First, there are those issues which are included in the debate - focussing on corporatisation models. Second, there are those issues which are excluded from the debate - primarily models which are alternative to corporatisation. The Ministerial Advisory Committee on Cooperation, therefore, suggests that the cooperative model should be included in the debate and that the Government should move away from muddling through to a middle way which has the social benefits, and not the social costs, of public and private ownership and control - cooperatisation instead of corporatisation.